

DATE: NOVEMBER 3, 2003

TO: PASADENA COMMUNITY DEVELOPMENT COMMISSION

FROM: CYNTHIA J. KURTZ, CHIEF EXECUTIVE OFFICER

SUBJECT: APPROVAL OF MODIFIED TERMS TO OWNER PARTICIPATION, PURCHASE, DEVELOPMENT, LOAN AND LEASE AGREEMENT BETWEEN LOS ANGELES COMMUNITY DESIGN CENTER AND PASADENA COMMUNITY DEVELOPMENT COMMISSION FOR THE ORANGE GROVE GARDENS APARTMENTS DEVELOPMENT AT 252-284 E. ORANGE GROVE BLVD.

RECOMMENDATION:

It is recommended that the Pasadena Community Development Commission ("Commission") take the following actions:

1. Hold a public hearing to approve the modified terms and provisions of that certain Owner Participation, Purchase, Development, Loan and Lease Agreement (the "Agreement") between the Los Angeles Community Design Center ("Developer") and the Commission as described in this report; and
2. Authorize the Chief Executive Officer of the PCDC to execute, and the Secretary to attest, the Agreement and to take all actions necessary to implement the Agreement as modified.

ADVISORY BODY RECOMMENDATION:

The Community Development Committee, at its regular meeting on October 23, 2003, unanimously recommended approval of the subject recommendation.

BACKGROUND

The Pasadena Community Development Commission ("Commission"), at a public hearing on August 11, 2003, approved, among other things, the terms and provisions of that certain Owner Participation, Purchase, Development, Loan and Lease Agreement (the "Agreement") with the Los Angeles Community Design Center ("Developer") for the development of the proposed Orange Grove Gardens project, a 38-unit affordable rental housing complex for low and very low income families (the "Development") located at 252-284 E. Orange Grove Blvd.

Subsequent to the Commission public hearing, the Developer commenced to secure project funding from the County of Los Angeles "Industry Funds" program, conventional financing, and the State Low Income Housing Tax Credit program. In the process, the Developer encountered key changes in financing parameters which differed from the original financial assumptions used by the Developer, Commission staff, and Keyser Marston Associates ("KMA", the Commission's financial consultant).

The most significant change is that the County's "Industry" program now limits substantially the amount of costs that a developer can recoup upon completion of an affordable housing project, resulting in the deferral of a substantial portion of such costs to be paid from project operating cash flow. In addition, the County program has reduced its maximum per unit subsidy amount. The conventional financing costs for the Development have also increased; the Developer has been able to secure a conventional loan from Citibank, but at a higher interest rate than what was originally projected. Furthermore, the State's Low Income Housing Tax Credit program is requiring developers to apply for funding at a tax credit rate (8.1%) lower than the previously assumed rate (8.3%); this reduces the amount of tax credit equity available to the Development.

In response to these changes in financial assumptions, the Developer, on September 9, 2003 requested modifications to certain key financial terms in the Agreement. KMA performed a financial analysis of the Developer's request.

PROPOSED MODIFICATIONS TO KEY FINANCIAL TERMS

The above-noted changes have resulted in two (2) key modifications to the financial arrangement between the Commission and Developer:

- 1) The Developer will be deferring a substantial amount (\$583,000) of its costs (e.g., project feasibility, predevelopment, and organizational) to be recovered after project completion from cash flow over an estimated period of 17 years.
- 2) The Commission loan of \$550,000 will be reduced to \$510,200 and be repaid from cash flow subordinate to the deferred developer costs. Repayment projections indicate that the loan repayment will be extended from 17 years (original transaction) to 23 years.

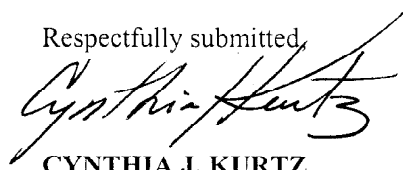
KMA's financial analysis of the revised financial terms is contained in the "Summary Report" (Exhibit "A"), prepared pursuant to Section 33433 of the State Health and Safety Code.

FISCAL IMPACT

Approval of the subject recommendation will have the following fiscal impacts:

- a) The amount of Commission loan assistance to the Development will be reduced from \$550,000 to \$510,200. There is no change to the originally approved Commission loan term (55 years).
- b) Based on a financial analysis performed by KMA, it is projected that the Commission Loan would be fully repaid in Year 23 of project operation (from debt service payments beginning in Year 16), compared with the original financial structure in which the Commission Loan was projected to be repaid in Year 17 (from debt service payments beginning in Year 1).

Respectfully submitted,



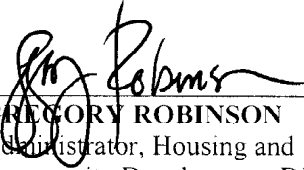
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